

Jaime Caruana: Words of welcome - ECB Governing Council Dinner

Speech by Mr Jaime Caruana, Governor of the Bank of Spain and Chairman of the Basel Committee on Banking Supervision, at the Governing Council Dinner on the occasion of the meeting of the European Central Bank Governing Council, Madrid, 7 June 2006.

* * *

It is a source of great satisfaction for me to welcome you to this dinner on the occasion of the meeting of the ECB Governing Council in Madrid. We are particularly honoured by the presence of the President of the Government and by that of the other authorities and personalities accompanying us today.

As many of you are aware, this is the second time the Governing Council of the European Central Bank has met here. The first was in March 2000, a little more than one year after the start of Monetary Union, unquestionably the most visible feature of European construction. On that occasion, the euro area economy appeared set on a notably dynamic path with year-on-year growth exceeding 3% and the Spanish economy, in turn, was maintaining a sustained pace of expansion, benefiting from the favourable monetary and financial conditions and strong job creation. Against this backdrop, Spanish citizens could already perceive the favourable effects of our participation in the euro area and, therefore, the success of the economic policies applied during the convergence process.

It is thus no exaggeration to say that those present at a similar dinner six years ago felt quite optimistic about the prospects for the European economy, within Monetary Union, although the Union had only just taken its very first steps and euro banknotes and coins had not even begun to circulate.

We now have the benefit of the experience built up in the intervening period. The euro has meant tangible benefits in terms of savings on transaction costs for citizens, eliminating exchange rate risks within the area, facilitating market integration and it has provided an environment of economic and monetary stability.

The ECB has attained high credibility in a short period of time which is undoubtedly a result of the clarity of its objectives, the effectiveness of its strategy and the soundness of its decisions. Nevertheless, it is a fact that the European economy has not managed to repeat growth figures close to those seen in 2000. It has been prone to bouts of notable sluggishness, highlighting - in addition to the effect of an unusual series of adverse shocks - the structural shortcomings holding back activity and employment. We have therefore seen that, despite the favourable effects a monetary policy unequivocally geared to price stability has on economic prosperity, the full effectiveness of its contribution requires an ambitious reform agenda in other economic policy spheres.

The Spanish economy has, in recent years, managed to sustain and even step up its pace of expansion, benefiting from the notable migratory flows that have bolstered the expansionary impact of low financing costs. At the same time, the presence of certain imbalances has been detected. And these, though consistent with the buoyancy of the economy, give rise to certain risks for the future continuity of the expansion and, therefore, are focusing the attention of national economic authorities at present.

In the few short years since the introduction of the euro, EMU has, admittedly, already revealed its capacity to promote widespread well-being. But it has also revealed specific challenges for the authorities and economic agents as a whole, the nature and significance of which are not fully uniform across the member countries.

In this respect, the federal structure of the Eurosystem is particularly useful for making the monetary authority's conduct in the euro area efficient. This structure allows us to reconcile the unicity of our primary objective and of our core messages with detailed knowledge of relevant national developments and with a proximity to citizens that the national central banks provide.

It is, therefore, my belief that these ECB Council meetings outside Frankfurt are a timely and regular reminder of the plurinational nature of this governing body, which exercises its functions in a collegial and cohesive fashion for the benefit of all euro area countries and citizens.

Thank you.